

## DEMOGRAPHICS IS DESTINY\*

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30 April 2019

**As long-term investors, we spend a lot of time thinking about structural changes happening in the world that will change the economic value chain. As NANCY HOSSACK explains, these studies are a crucial part of the roadmap.**

We study dozens of long-term trends such as the impact of digital interconnectivity or the rise of electric (and even driverless) motor vehicles. We look for parts of the global economy likely to be the natural winners over time and avoid those where headwinds may build. We seek the best structural growth opportunities to underpin the portfolios' inflation-beating returns.

We pay particularly close attention to demographic trends, which is the statistical study of populations and how they change. We know what the population profile is today and that each day everyone gets a day older, some people die and new people are born. The expected population profile through time is therefore predictable and reliable.

Demographics matter for three primary reasons:

1. Economic growth depends on the size of the working age population and productivity growth;
2. People are natural buyers of financial assets in their working years (accumulating capital) and natural sellers in retirement (pension income), which affects asset prices; and
3. Consumer preferences also change — a 20-year old today has different spending priorities than a 20-year old of 25 years ago.

We know that the world population is ageing. The baby boomer generation (post World War II births) is retiring in large numbers — 10 thousand people a day retire in the US alone.

The healthcare sector should benefit from this demographic shift. For example, an 80-year old spends twice as much on healthcare as a 60-year old, who spends twice as much as a 40-year old.

Healthcare spending as a percentage of the US economy is indeed rising as the population ages. Our portfolios hold several companies well positioned to benefit from this long-term theme. CVS Health, Roche and Johnson & Johnson are some examples.

Another related demographic shift is the rise of the Asian middle class, where populations on average are much younger. The Asian share of the global middle class will go from one third in 2009 to two thirds by 2030.

This rapidly growing group of consumers will also have rising incomes as they progress through the working-age cycle. The portfolios own companies such as the People's Insurance Company of China, JD.Com and Kasikornbank in Thailand that will benefit from the structural growth in Asian consumer spending over the coming decades.

While demographic trends are critical to the investment process at Foord, all Foord portfolios remain well balanced across diversified drivers of return, making sure that no single theme or investment idea dominates the outcome.

*\*August Comte, 19th century philosopher*

#### **ABOUT FOORD ASSET MANAGEMENT**

Foord Asset Management has been successfully growing retirement savings since 1981. The company offers a premium investment management service to long-term investors in retirement funds and unit trust portfolios. A multi-decade track record of successful investing evidences Foord's ability to consistently deliver superior investment returns for a range of investment strategies.

- As an independent and owner-managed business built on the principles of investment stewardship, we place investors' interests ahead of our own
- We construct diversified investment portfolios based on rigorous fundamental research, high conviction ideas and an adaptable, value-driven investment policy
- We embrace market volatility as opportunity, not risk.

#### **ABOUT NANCY HOSSACK**

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Equity Research Analyst

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- Lead analyst covering retail, insurers and technology within the SA listed environment
  - Prior to joining Foord in 2015, she worked as an analyst at Investec Asset Management
  - Attended University of Cape Town where she earned a CA (SA) having completed her articles at Investec Bank

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